



2nd quarter 2008

Tennessee Housing Market

Business and Economic Research Center • David A. Penn, Director • Jennings A. Jones College of Business • Middle Tennessee State University

This is the fourth in a series of quarterly reports on the housing market in Tennessee, supported by a Tennessee Housing Development Agency grant.

Economic Overview

Rising unemployment is the most pressing concern for Tennessee in the second quarter. Unemployment increased substantially as the number of persons without work and actively seeking jobs increased by 25,000 from the previous quarter, causing the state's unemployment rate to jump from 5.2 percent to 6.1 percent, the largest quarterly rise since 1982. The increase in the unemployment rate can be explained by falling total employment, with the number of persons with jobs down by about 24,000. Most of the states experiencing large increases in unemployment are heavily dependent on housing construction and real estate (California, Nevada, Florida) or have a large presence of auto man-

ufacturing and auto parts (Michigan, Ohio, Indiana, Tennessee).

With unemployment on the rise, one would expect to observe significant job losses in important industries such as manufacturing, construction, retailing, and the services-providing sectors. Indeed, manufacturing continues to lose jobs, and employment growth in the services-providing sectors has slowed to nearly zero. But these trends have been apparent for months; one would expect much larger job losses given the sharp jump in unemployment. Various reasons can be offered for this disparity, but a final reconciliation may not occur until revised nonfarm employment data are released early next year.

Housing Construction

Permits issued for single-family home construction rose modestly in the second quarter, the first increase since the

Table 1. Selected Tennessee employment indicators (thousands, seasonally adjusted)

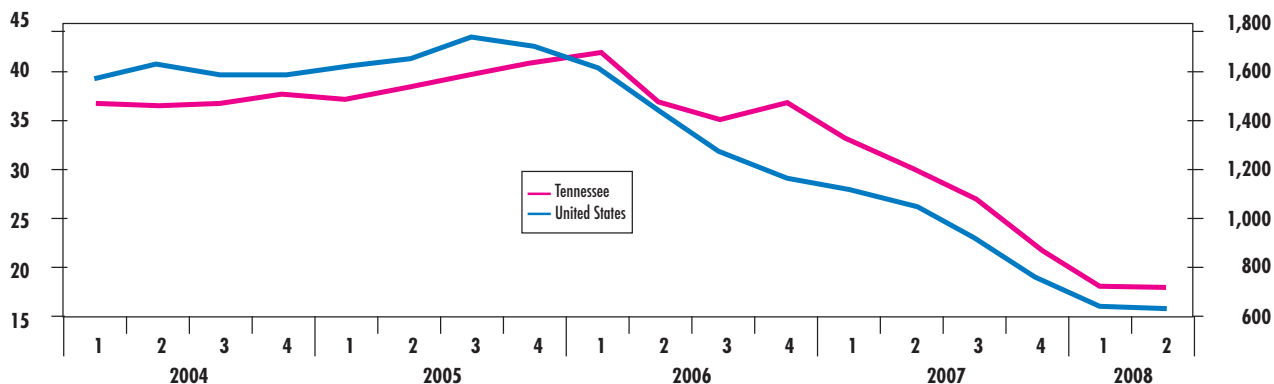
	2007.2	2007.3	2007.4	2008.1	2008.2
Employment by industry (nonfarm)					
Total nonfarm	2,793	2,804	2,803	2,797	2,785
Goods-producing sectors	518	516	516	512	508
Manufacturing	380	378	377	374	371
Services-providing sectors	2,275	2,287	2,287	2,284	2,276
Unemployed	139	144	152	160	186
Total employment	2,890	2,900	2,901	2,896	2,873
Labor force	3,029	3,044	3,054	3,057	3,058
Unemployment rate (percent)	4.6	4.7	5.0	5.2	6.1

Source: Bureau of Labor Statistics

Table 2. Permits issued for privately owned housing, seasonally adjusted annual rate (thousands)

Quarter	Single-Family Permits			Total Permits		
	Tennessee	South	U.S.	Tennessee	South	U.S.
2006.3	35.4	674.0	1,269.0	43.6	868.7	1,713.3
2006.4	37.1	635.0	1,178.7	41.4	813.3	1,581.0
2007.1	33.1	588.3	1,130.3	39.5	781.7	1,581.0
2007.2	30.3	540.7	1,052.3	36.5	742.7	1,481.3
2007.3	27.1	482.0	931.7	34.1	654.0	1,335.3
2007.4	22.0	399.7	764.0	31.2	569.3	1,160.0
2008.1	18.0	351.7	647.3	23.4	515.0	988.3
2008.2	18.1	331.7	633.3	20.8	472.7	1,032.7
Change from previous quarter	0.2%	-5.7%	-2.2%	-10.8%	-8.2%	4.5%
Change from previous year	-40.3%	-38.7%	-39.8%	-42.9%	-36.4%	-30.3%

Source: Census Bureau

Figure 1. Trend of single-family permits (thousands), Tennessee and U.S. (seasonally adjusted annual rate)

fourth quarter of 2006. While favorable, a small one-quarter gain does not necessarily signal the beginning of a housing recovery. One or two additional quarters of improvement are desirable to make the case.

The number of permits issued in the U.S. declined but not nearly as much as in previous quarters (Figure 1). The housing construction market in the South, however, continues to rapidly deteriorate, with single-family permits down 5.7 percent from the previous quarter.

Total permits declined in the second quarter, caused by a drop in the number of multifamily units. The South also experienced a decline, but the U.S. experienced an increase.

Home Sales and Prices

Residential home sales dropped substantially in the second quarter in the three metropolitan areas tracked by this report. The decline reverses the improvement experienced in the first quarter, with sales plunging 8.8 percent in the Nashville area, 9.9 percent in the Memphis area, and 6.6 percent in the Knoxville area, after seasonal adjustments. Over-the-year declines are 28.2 percent for Nashville, 19.7 percent for Memphis, and 24.0 percent for Knoxville.

Inventory trends offer a guarded sign of improvement, almost certainly due to a decline in the supply of homes offered for sale during the quarter. The number of homes on the market dropped in Memphis, showed little increase in Knoxville, and increased slightly in Nashville. Inventory can decline either due to increased sales or decreased supply. Since sales continue to fall, the inventory improvement can be attributed to a decreased supply of homes.

Real Estate Transactions and Mortgages

The volume of real estate transactions dropped again in the second quarter, falling 10 percent from the first quarter as measured by real estate transaction tax collections (Figure 3). The rate of decline of transactions shows no sign of diminishing in the second quarter. Falling sales can be attributed to tightened lending criteria, falling consumer confidence, and the slowing of the state's economy.

Mortgage tax collections were relatively flat in the second quarter, continuing the trend started in the first quarter. Mortgage tax collections are probably benefitting from substantial refinancing activity instead of new mortgages related to sales.

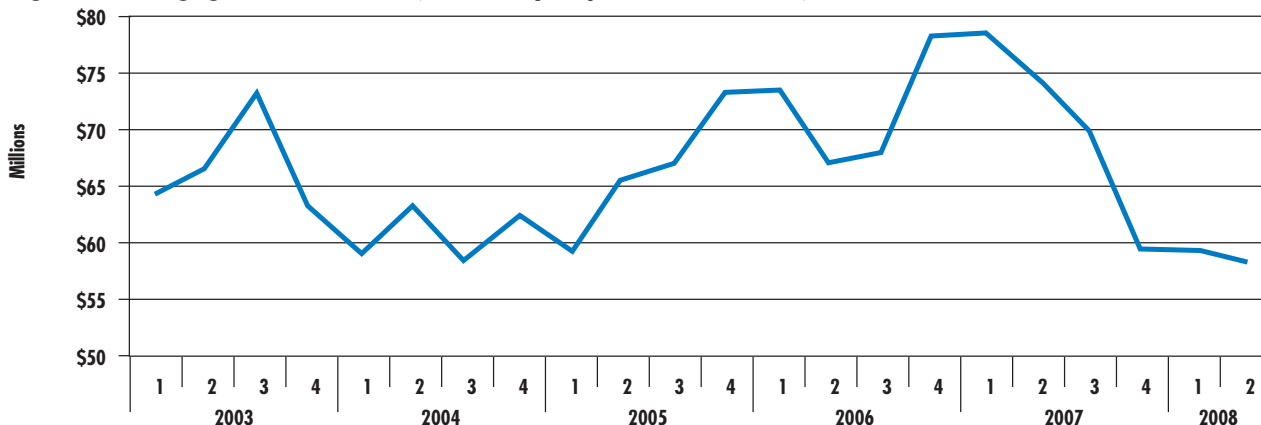
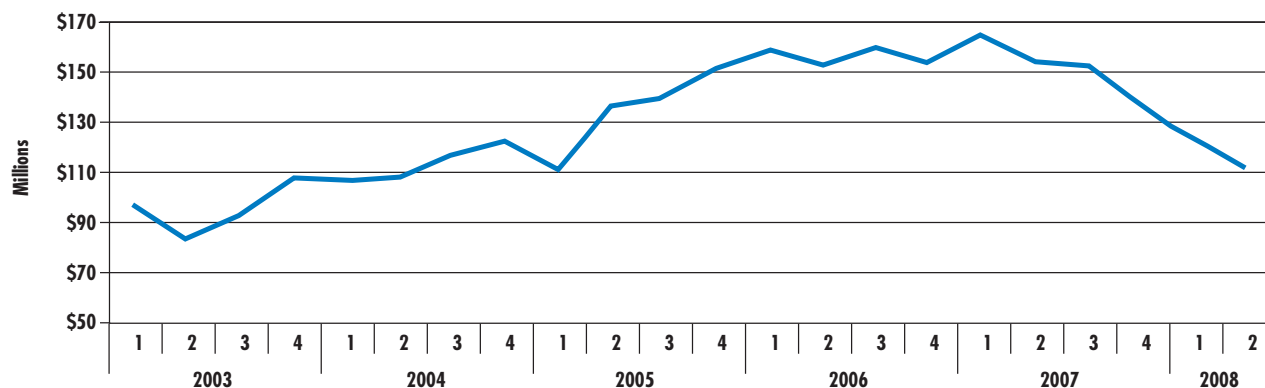
Figure 2. Mortgage tax collections (seasonally adjusted annual rate)

Figure 3. Real estate transfer tax collections (seasonally adjusted annual rate)

Mortgage Delinquencies and Foreclosures

Mortgages past due increased in the first quarter, rising to 7.86 percent from 7.33 percent in the fourth quarter, seasonally adjusted (Table 3). The first-quarter figure is the highest dating back to the beginning of our time series, with the previous high of 7.46 percent in the first quarter of 1991.

Tennessee continues to experience a higher rate of mortgages past due than the U.S., although the gap is steadily narrowing: the growth of past due mortgages in the U.S. is larger than in Tennessee.

More encouraging is the number of new foreclosures. Increasing numbers of new foreclosures add to the total inventory of homes on the market, causing downward pressure on home prices. When home prices fall, lenders cut back further on home loans, and more households find they owe more than their homes are worth, causing more delinquencies and foreclosures. The cycle tends to self-perpetuate. Fortunately, initial foreclosures appear to have stabilized at 0.71 percent, a figure virtually the same as the previous two quarters.

Conclusion

On balance, the Tennessee economy weakened during the second quarter as evidenced by the large rise in the unemployment rate. Nonfarm employment declined for the second quarter, but the loss of jobs was not large. Housing sales continue to weaken, and inventories are mixed.

A positive sign is the increase in the number of single-family home permits after five straight quarters of decline. Multifamily permits declined during the quarter, however, causing total permits to drop also. After a brief first-quarter reprieve, housing sales continue their march downward with no bottom yet in sight. Inventories are mixed, with Nashville experiencing rising inventory, Memphis falling, and Knoxville steady.

Tennessee continues to experience a higher percentage of mortgages past due than the U.S., but the difference is narrowing. The inventory of foreclosures continues to rise but at a fairly steady pace; by contrast, foreclosures for the U.S. are rising more quickly. ■

Table 3. Mortgages past due, new foreclosures started, and foreclosure inventory (% of mortgages serviced, seasonally adjusted)

Quarter	Tennessee			U.S.		
	Mortgages past due	Foreclosures started during quarter	Foreclosure inventory at end of quarter	Mortgages past due	Foreclosures started during quarter	Foreclosure inventory at end of quarter
2007.1	6.56	0.59	1.25	4.88	0.58	1.26
2007.2	6.70	0.61	1.21	5.19	0.65	1.44
2007.3	7.45	0.70	1.28	5.55	0.77	1.71
2007.4	7.33	0.71	1.37	5.77	0.83	1.99
2008.1	7.86	0.71	1.50	6.37	0.99	2.44

Source: Mortgage Bankers Association of America and BERC

Figure 4. Single-family sales and inventory (seasonally adjusted quarterly average of monthly figures)

